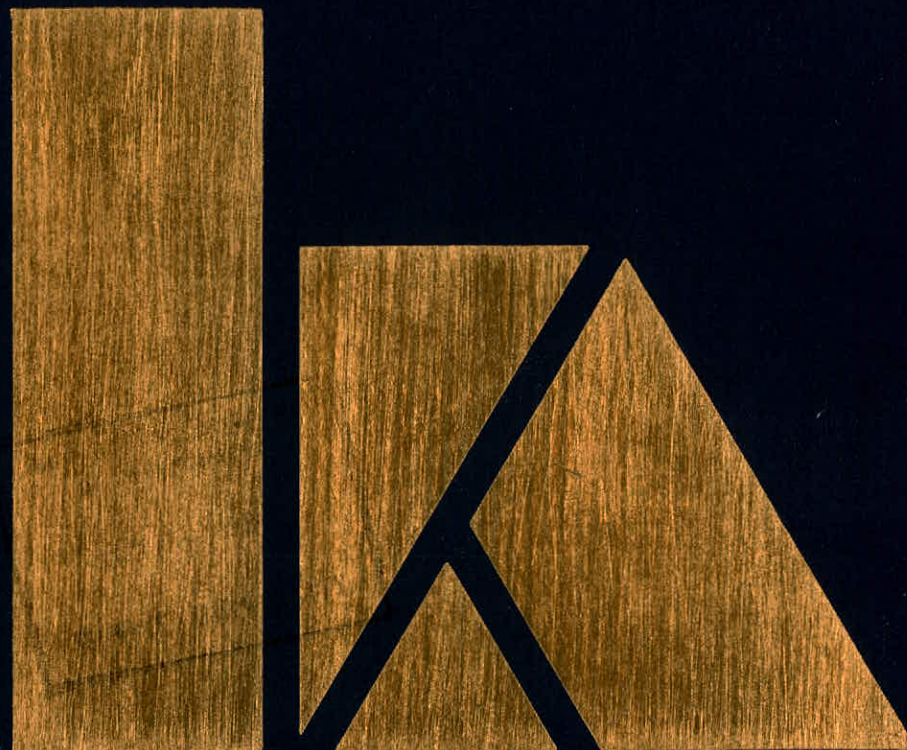


**Kerr Addison Mines Limited**



**Annual Report 1979**



# KERR ADDISON MINES LIMITED

P.O. Box 91, Commerce Court West  
TORONTO, ONTARIO

## NOTICE OF ANNUAL AND GENERAL MEETING OF SHAREHOLDERS

NOTICE is hereby given that the Annual and General Meeting of Shareholders of Kerr Addison Mines Limited will be held in the Tudor Room, Royal York Hotel, Toronto, Ontario on

**TUESDAY, APRIL 24, 1979**

at 12:00 o'clock noon (Toronto Time) for the following purposes:

1. to receive the Annual Report, including financial statements and Auditors' Report for the fiscal year ended December 31, 1978;
2. to elect directors;
3. to appoint auditors and authorize the directors to fix their remuneration;
4. to consider and, if thought fit, to confirm a resolution passed by the Board of Directors on February 16, 1979 as Special Resolution Number 6 of the Corporation authorizing the amendment of the articles of the Corporation by:
  - (i) reclassifying the Class A shares and the Class B shares of the Corporation, both issued and unissued, as common shares, and
  - (ii) providing in the articles that the directors may determine, with respect to any cash dividend declared payable, that the shareholders, or shareholders resident in Canada and in specified jurisdiction outside Canada, may elect to receive, in lieu of such cash dividend, a stock dividend payable in shares of the Corporation; and
5. to transact such other business as may properly come before the meeting or any adjournment thereof.

A copy of each of the said reports, financial statements and an Information Circular containing the text of the above-mentioned special resolution accompanies this notice.

DATED at Toronto, Ontario this 20th day of March, 1979.

By Order of the Board

J. B. SAGE,  
Secretary.

Shareholders are entitled to vote at the meeting either in person or by proxy. If it is not your intention to be present at the meeting, please exercise your right to vote by promptly signing, dating and returning the attached form of proxy in the envelope provided for that purpose.



# KERR ADDISON MINES LIMITED

## INFORMATION CIRCULAR for ANNUAL AND GENERAL MEETING OF SHAREHOLDERS to be held April 24, 1979

This Information Circular accompanies the Notice of the Annual and General Meeting of Shareholders of the Corporation to be held April 24, 1979, and is furnished in connection with the solicitation of proxies by management of the Corporation, for use at said meeting. The solicitation will be primarily by mail, but proxies may also be solicited by regular employees of the Corporation. The cost of solicitation by management will be borne by the Corporation.

The persons named in the enclosed form of proxy are officers of the Corporation. **If, however, a shareholder desires to appoint some other person (who need not be a shareholder) to represent him at the meeting other than those designated in the form of proxy, he may do so by inserting such other person's name in the blank space provided in the form of proxy or by completing another form of proxy.**

A shareholder who has given a proxy may revoke it at any time prior to its use either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Corporation, or (b) by signing written notice of revocation and delivering it to the Secretary of the Corporation or the Chairman of the meeting.

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed nominees and they will vote such shares in accordance with any choice specified in the form of proxy, subject to the provisions of section 121 of The Business Corporations Act. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to all other matters which may properly come before the meeting.

### VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

There are 9,106,198 Class A shares without par value and 438,751 Class B shares without par value of the Corporation outstanding, and shareholders of record at the time of the meeting are entitled to one vote for each Class A share and each Class B share held, at such meeting and at any adjournment thereof.

Management of the Corporation understands that Noranda Mines Limited is the only person or company which owns beneficially, directly or indirectly, shares carrying more than 10% of the voting rights attached to all of the outstanding shares of the Corporation, owning 4,147,805 Class A shares, or approximately 43.5% of the outstanding shares of the Corporation, all of which carry the same voting rights.

### ELECTION OF DIRECTORS

The management of the Corporation proposes to nominate the persons listed below for election as directors of the Corporation to serve until the next annual meeting or until their successors are elected or appointed. All such proposed nominees are now directors of the Corporation and have been since the dates indicated. **It is the intention of the persons named in the enclosed form of proxy to vote for the election of the proposed nominees as directors.** If any of such nominees should be unable to serve as a director for any unforeseen reason, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.



| <u>Name and Office Held<br/>with the Company</u>                   | <u>Principal Occupation</u>                                                                                                                                                                                                   | <u>Became<br/>Director</u> | <u>Number of<br/>Class A or<br/>Class B<br/>Shares Owned</u> |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|--------------------------------------------------------------|
| P. S. Cross<br><i>Executive Vice-President</i>                     | Executive Vice-President of the Corporation from October 1978 to date, prior to which he was a Vice-President of the Corporation from April 1976 and, prior thereto Chairman and Managing Director, Mogul of Ireland Limited. | 1978                       | —                                                            |
| Allan Findlay, Q.C.                                                | Partner in Law Firm of Tilley, Carson & Findlay.                                                                                                                                                                              | 1972                       | 1,000                                                        |
| J. O. Hinds                                                        | Executive Assistant to the President of Noranda Mines Limited.                                                                                                                                                                | 1974                       | 300                                                          |
| *William James<br><i>President and Chief<br/>Executive Officer</i> | President of the Corporation.                                                                                                                                                                                                 | 1973                       | 7,605                                                        |
| James W. McCutcheon, Q.C.                                          | Partner, Shibley, Righton & McCutcheon, Barristers and Solicitors.                                                                                                                                                            | 1975                       | 200                                                          |
| D. G. Neelands, Q.C.                                               | Chairman and Chief Executive Officer of Canada Permanent Mortgage Corporation.                                                                                                                                                | 1973                       | 200                                                          |
| *J. P. W. Ostiguy, O.C.                                            | Chairman of Greenshields Incorporated (Investment Dealers).                                                                                                                                                                   | 1968                       | 100                                                          |
| *Alfred Powis                                                      | Chairman and President of Noranda Mines Limited.                                                                                                                                                                              | 1969                       | 2,300                                                        |
| *W. H. Rea, C.M.                                                   | Vice-President of The Mutual Life Assurance Company of Canada, (Life insurance company).                                                                                                                                      | 1963                       | 1,000                                                        |
| *W. S. Row<br><i>Chairman of the Board</i>                         | Chairman of the Board of the Corporation.                                                                                                                                                                                     | 1955                       | 1,100                                                        |
| D. E. G. Schmitt                                                   | Vice-President — Mines of Noranda Mines Limited.                                                                                                                                                                              | 1973                       | 100                                                          |

\* Members of the Executive Committee

NOTE: The number of shares owned, as shown above, are as reported by the respective nominees.

#### REMUNERATION OF MANAGEMENT AND OTHERS

- Aggregate direct remuneration paid or payable during 1978 by the Corporation and its subsidiaries, whose financial statements are consolidated with those of the Corporation, to the directors and senior officers of the Corporation ..... \$402,259
- Estimated aggregate cost to the Corporation and its subsidiaries in 1978 of all pension benefits proposed to be paid to the directors and senior officers of the Corporation under existing plans, in the event of retirement at normal retirement age ..... \$ 19,046
- The Corporation has established an incentive policy for the provision of interest free loans to key employees of the Corporation or its subsidiaries, whether or not they are officers or directors, to be used for the purchase or erection of dwellings in accordance with the by-laws of the Corporation and The Business Corporations Act. In this regard, loans have been made to officers, of which no individual loan exceeded \$30,000. During the past year, the largest aggregate amount of indebtedness outstanding from officers at any time was \$59,170 and, the present outstanding amount of the two remaining loans to officers aggregates \$25,500. Repayment of the loans must be made over a ten-year period or upon termination of employment.

4. During 1978 and 1979 to date, senior officers of the Corporation were granted stock options to purchase Class A shares of the Corporation, in accordance with the Corporation's previously established Stock Option Plan, as follows:

| <u>Number of<br/>shares on<br/>which options<br/>granted</u> | <u>Date of grant<br/>of options</u> | <u>Expiration date<br/>of options</u> | <u>Purchase price<br/>per share</u> | <u>Price range of shares<br/>on Toronto Stock<br/>Exchange in 30 day<br/>period preceding grant</u> |
|--------------------------------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------|
| 10,900                                                       | July 25, 1978                       | July 25, 1988                         | \$12.02                             | 12¾-10%                                                                                             |

5. During 1978 and 1979 to date, senior officers of the Corporation purchased Class A shares of the corporation pursuant to stock options granted to them in previous years by the Corporation, as follows:

| <u>Quarter in<br/>1978/1979</u> | <u>Number of<br/>shares purchased</u> | <u>Purchase price<br/>per share</u> | <u>Price range of shares<br/>on Toronto Stock<br/>Exchange in 30 day<br/>period preceding purchase</u> |
|---------------------------------|---------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------|
| July-Sept. 1978                 | 500                                   | \$ 8.14                             | 15¾-10%                                                                                                |
|                                 | 1,000                                 | \$11.19                             |                                                                                                        |

### APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the reappointment of Messrs. Clarkson, Gordon & Co., Chartered Accountants, Toronto, as auditors of the Corporation, to hold office until the next Annual Meeting of Shareholders. Messrs. Clarkson, Gordon & Co. have been auditors of the Corporation for more than five years.

### AMENDMENT OF ARTICLES

The shareholders of the Corporation will be asked to consider and, if thought fit, to confirm as Special Resolution Number 6 a resolution passed by the board of directors on February 16, 1979. Special Resolution Number 6 would authorize the amendment of the articles of the Corporation by (i) reclassifying the Class A shares and the Class B shares of the Corporation, both issued and unissued, as common shares, and (ii) providing in the articles that the directors may determine, with respect to any cash dividend declared payable, that all shareholders, or the shareholders who are resident in Canada and in specified jurisdictions outside Canada, may elect to receive, in lieu of such cash dividend, a stock dividend payable in shares of the Corporation. The text of Special Resolution Number 6 is contained in the schedule to this Information Circular.

### Reclassification of Class A and Class B shares as common shares

The directors are proposing that the shareholders pass the Special Resolution because of amendments made to the Income Tax Act of Canada in 1977. As of the end of 1978, these amendments terminated the Corporation's ability to pay dividends out of "1971 capital surplus on hand" to those shareholders who wished to receive them. The presently-existing Class A and Class B shares of the Corporation, which are interconvertible on a share-for-share basis, were created in 1974 in order to permit the directors to pay dividends out of 1971 capital surplus on hand to the shareholders of the Corporation holding Class B shares, while paying dividends from regular sources on the Class A shares in equal amounts. Accordingly, from December, 1974 until the end of 1978, all dividends on the Class B shares were paid out of 1971 capital surplus on hand, whereas all dividends on the Class A shares during that period were paid from regular sources. As a result of the termination of the Corporation's ability to pay dividends out of 1971 capital surplus on hand, the purpose for which the Class A and Class B shares were created in 1974 no longer exists and, accordingly, the Special Resolution would reclassify the Class A and Class B shares, both issued and unissued, as common shares.

The proposed reclassification of the Class A and Class B shares as common shares would result in the authorized share capital of the Corporation consisting of 12,500,000 common shares without par value. This is the same aggregate number of shares as that presently authorized. The authorized capital now consists of an aggregate of 12,499,000 Class A and Class B shares without par value and 1,000 common shares without par value. At present 9,106,198 Class A shares and 438,751 Class B shares are outstanding. None of the authorized common shares have been issued.



The presently-existing Class A and Class B shares rank equally in all respects including entitlement to dividends, except that, under the terms attached to the shares, dividends may be paid out of 1971 capital surplus on hand on the Class B shares without the corresponding dividends on the Class A shares being paid from the same source. Following the proposed reclassification of the Class A and Class B shares as common shares, as the Corporation will have only a single class of shares, there will be no terms attached to the common shares with respect to the payment of dividends or the distribution of assets in the event of the liquidation of the Corporation. Furthermore, no terms will be attached to the common shares providing for their redemption or other retirement nor will any pre-emptive rights be attached to such shares. After the reclassification of the Class A and Class B shares, the former holders of Class A and Class B shares will have essentially the same voting rights as at present, namely, each share will carry one vote at all shareholders' meetings and there will be no cumulative voting provisions. The presently-outstanding Class A and Class B shares have been issued as fully-paid and non-assessable and will continue to be outstanding as fully-paid and non-assessable following their reclassification as common shares.

### **Stock dividends**

The 1977 amendments to the Income Tax Act of Canada referred to above also provided that shares issued as stock dividends to shareholders resident in Canada will not be taxed as dividends when received, although there may be tax payable on a capital-gains basis when such shares are sold. In addition, shares issued as stock dividends to non-resident shareholders will generally not be subject to Canadian withholding taxes. This treatment of stock dividends is similar to the tax treatment of cash dividends paid out of 1971 capital surplus on hand to the holders of Class B shares prior to the end of 1978. Accordingly, the Special Resolution would provide that the directors may determine at any time or from time to time, with respect to any cash dividend declared payable, that all shareholders, or the shareholders who are resident in Canada and in specified jurisdictions outside Canada, may elect to receive, in lieu of such cash dividend, a stock dividend payable in shares of the Corporation. The shares issued by way of stock dividend would have a value, as determined by the directors, that is substantially equivalent, as of a day or period of days determined by the directors, to the amount of the cash dividend. Shareholders electing stock dividends would receive cash in lieu of fractional share interests.

If the amendments to the Corporation's articles provided for by the Special Resolution become effective, it is the present intention of the directors to determine, with respect to each cash dividend declared on the common shares, that the holders of such shares may elect to receive, in lieu of the cash dividend, a stock dividend payable in additional common shares of substantially equivalent value.

### **Tax consequences for Canadian shareholders**

For Canadian federal income tax purposes, the reclassification of the outstanding Class A and Class B shares as common shares will not result in a taxable capital gain or an allowable capital loss to a resident of Canada. The adjusted cost base of a shareholder's common shares immediately after the reclassification will be the same as the adjusted cost base of his Class A or Class B shares immediately before the reclassification.

Where dividends are paid by the issuance of common shares of the Corporation to a shareholder resident in Canada, they will be deemed not to be dividends under the Income Tax Act of Canada. Consequently, such stock dividends will not be included in computing the income of a shareholder resident in Canada. Under the Income Tax Act, the cost to the shareholder of any share so received as a stock dividend will be deemed to be "nil", except that, for the purpose of computing the adjusted cost base of such share, the "nil" cost of the share will be averaged with the adjusted cost bases of all other shares of the same class owned by the shareholder, other than shares treated by the Income Tax Act or the Income Tax Application Rules, 1971, as shares held at the end of 1971, for the purpose of computing the adjusted cost bases of such shares.

Dividends that are paid in cash (including cash paid in lieu of fractional share interests) to an individual resident in Canada will be taxable as ordinary dividends.

Unlike the treatment under Canadian federal income tax law, Quebec treats stock dividends as ordinary dividends and, therefore, a stock dividend received by a resident of Quebec currently is treated under Quebec taxation law in the same manner as a cash dividend. However, the Minister of Finance of Quebec announced on December 21, 1978 that the Quebec Taxation Act will be amended retroactively to April 1, 1977 to provide Quebec residents with the same tax treatment of stock dividends as that accorded under Canadian federal income tax law.



## **Tax consequences for United States shareholders**

For United States federal income tax purposes, the reclassification of the outstanding Class A and Class B shares as common shares will result in no gain or loss to a shareholder who is a citizen or resident of the United States, or a United States domestic corporation. A United States shareholder's tax basis for his reclassified common shares will be the same as the tax basis of the Class A or Class B shares, as the case may be, held by the shareholder immediately prior to the reclassification. The holding period of the common shares will include the holding period of the Class A or Class B shares, as the case may be, provided that such Class A or Class B shares were capital assets in the hands of the holder at the time of the reclassification.

Dividends paid with respect to common shares held by United States shareholders will be subject to United States federal income tax whether paid by the issuance of common shares or in cash if the holders have the right to elect to receive such dividends in the form of either shares or cash. The amount of any stock dividend subject to tax will be the fair market value thereof as of the date of distribution and the basis of the shares distributed as a stock dividend will be such value. The holding period of the shares will begin the day after the day the dividend is received. To the extent that dividends are paid by the issuance of shares to a shareholder resident in the United States, such dividends will generally not be subject to Canadian withholding tax.

Dividends paid in cash (including cash paid in lieu of fractional share interests) to an individual resident in, or a corporation organized under the laws of, the United States and not having a permanent establishment in Canada, will be subject to Canadian withholding tax at the rate of 10%. Subject to certain limitations, a United States shareholder may deduct from his United States federal taxable income any tax withheld in Canada, or may claim a credit for any such tax against his United States federal income tax liability incurred in respect of such dividends. United States organizations exempt from taxation under Article X of the Canada-United States Income Tax Treaty are generally entitled to receive cash dividends free from Canadian withholding tax.

## **Tax consequences for other shareholders**

The tax effect of the reclassification on shareholders who are residents of countries other than Canada and the United States and the taxability of dividends to such shareholders will be dependent upon the laws of their countries of residence.

Dividends paid by the issuance of common shares to a shareholder resident in a country other than Canada or the United States generally are not subject to Canadian withholding tax. Dividends paid in cash (including cash paid in lieu of fractional share interests) to any such non-resident shareholder will be subject to Canadian withholding tax at the current rate of 20%, subject to the terms of any tax convention existing between Canada and the country in which that shareholder resides.

## **Stock exchange listing**

The Class A and Class B shares are presently listed on the Toronto Stock Exchange. Subject to the proposed reclassification of the Class A and Class B shares becoming effective, the Corporation intends to apply for the listing of the common shares on the Toronto Stock Exchange effective upon the reclassification.

## **General**

To become effective, the Special Resolution must be confirmed by separate votes of the holders of the Class A shares and of the Class B shares. In the case of each vote, the Special Resolution must be confirmed by at least two-thirds of the votes of the holders present or represented and voting on the Special Resolution. In addition, articles of amendment providing for the amendment of the Corporation's articles in accordance with the Special Resolution must be filed with the Minister of Consumer and Commercial Relations of Ontario. If the Special Resolution is confirmed at the meeting, it is expected that the articles of amendment would be filed shortly afterwards.

Upon the filing of the articles of amendment, all of the Class A and Class B shares then outstanding will be automatically deemed to be common shares. It will **not** be necessary for a shareholder to have his share certificate or certificates replaced by a new certificate.

**Where a shareholder does not specify a choice, the persons named in the enclosed form of proxy intend to vote in favour of the Special Resolution.**

Shareholders are cautioned that the above statements as to tax consequences are not exhaustive, and any shareholder requiring further information should consult his own tax adviser.

## OTHER BUSINESS

Management of the Corporation knows of no matters to come before the meeting other than the matters referred to in the Notice of Meeting. However, if matters not now known to management should come before the meeting, shares represented by proxies solicited by management will be voted on each such matter in accordance with the best judgment of the nominees voting same.

Toronto, Ontario,  
March 1, 1979.

## SCHEDULE TO INFORMATION CIRCULAR SPECIAL RESOLUTION NUMBER 6

WHEREAS the authorized share capital of Kerr Addison Mines Limited (the "Corporation") consists of an aggregate of twelve million four hundred and ninety-nine thousand (12,499,000) Class A and Class B shares (which shall not be issued for an aggregate consideration exceeding fifty-four million nine hundred and ninety-nine thousand dollars (\$54,999,000)) and one thousand (1,000) common shares (which shall not be issued for an aggregate consideration exceeding one thousand dollars (\$1,000));

RESOLVED by way of special resolution that:

- (1) the articles of the Corporation shall be amended

by:

- (a) reclassifying all of the Class A and Class B shares of the Corporation, both issued and unissued, as common shares without par value, so that the authorized share capital of the Corporation will consist of twelve million five hundred thousand (12,500,000) common shares without par value, such shares not to be issued for an aggregate consideration exceeding fifty-five million dollars (\$55,000,000) or such greater amount as the board of directors of the Corporation may by resolution determine, provided that any such resolution shall not be effective until a certified copy thereof has been filed with the Minister of Consumer and Commercial Relations of Ontario and all prescribed fees have been paid, and the Minister has so certified;
- (b) deleting all of the preferences, rights, conditions, restrictions, limitations or prohibitions attached to the Class A and Class B shares of the Corporation; and
- (c) providing in the articles that the board of directors of the Corporation may determine at any time or from time to time, with respect to any cash dividend that is or may be declared payable on the shares of any class or series of shares of the Corporation, that the holders of the shares of such class or series, or the holders of shares of such class or series whose addresses, in the Corporation's records, are in Canada and in specified jurisdictions outside Canada, may elect to receive, in lieu of such cash dividend, a stock dividend payable in shares of any class of shares of the Corporation designated by the board of directors which have a value, as determined or to be determined by the board of directors, that is substantially equivalent, as of a date or a period of days determined or to be determined by the board of directors, to the amount of such cash dividend, provided that no shareholder shall be entitled to receive a fraction of a share but shall receive cash in lieu thereof; and

- (2) the proper officers of the Corporation shall be authorized and directed to execute and deliver such documents on the Corporation's behalf, including articles of amendment, and to take such other action as they consider necessary or desirable to implement this resolution.





# Kerr Addison Mines Limited

## DIRECTORS:

P. S. Cross  
Executive Vice-President  
Kerr Addison Mines Limited

Allan Findlay, Q.C.  
Partner  
Tilley, Carson & Findlay

J. O. Hinds  
Executive Assistant to the President  
Noranda Mines Limited

William James  
President  
Kerr Addison Mines Limited

James W. McCutcheon, Q.C.  
Partner  
Shibley, Righton & McCutcheon

D. G. Neelands, Q.C.  
Chairman  
Canada Permanent Mortgage Corporation

J. P. W. Ostiguy, O.C.  
Chairman  
Greenshields Incorporated

Alfred Powis  
Chairman and President  
Noranda Mines Limited

W. H. Rea, C.M.  
Vice-President  
The Mutual Life Assurance Company of Canada

W. S. Row  
Chairman of the Board,  
Kerr Addison Mines Limited

D. E. G. Schmitt  
Senior Vice-President — Mines  
Noranda Mines Limited

## OFFICERS:

W. S. Row  
Chairman of the Board

William James  
President & Chief Executive Officer

P. S. Cross  
Executive Vice-President

I. D. Bayer  
Treasurer

J. B. Sage  
Secretary

D. A. Lowrie  
Vice-President — Exploration

A. H. Cross  
Comptroller

## OPERATIONS:

The Kerr Addison Mine  
J. K. Teal, Manager

Agnew Lake Mines Limited  
G. M. Deutman, Manager

Mogul of Ireland  
P. S. Cross, Chairman  
& Managing Director  
W. E. Hitchman, Manager

## HEAD OFFICE AND EXPLORATION OFFICE:

P.O. Box 91  
Commerce Court West  
Toronto, Ontario  
M5L 1C7

## REGISTRAR AND TRANSFER AGENTS:

Canada Permanent Trust Company, Toronto  
Registrar & Transfer Company, New York, N.Y.  
and Jersey City, N.J.

## ANNUAL MEETING OF SHAREHOLDERS:

Wednesday, April 30, 1980, 12:00 noon  
in Commerce Hall, Commerce Court West,  
King and Bay Streets,  
Toronto, Ontario.



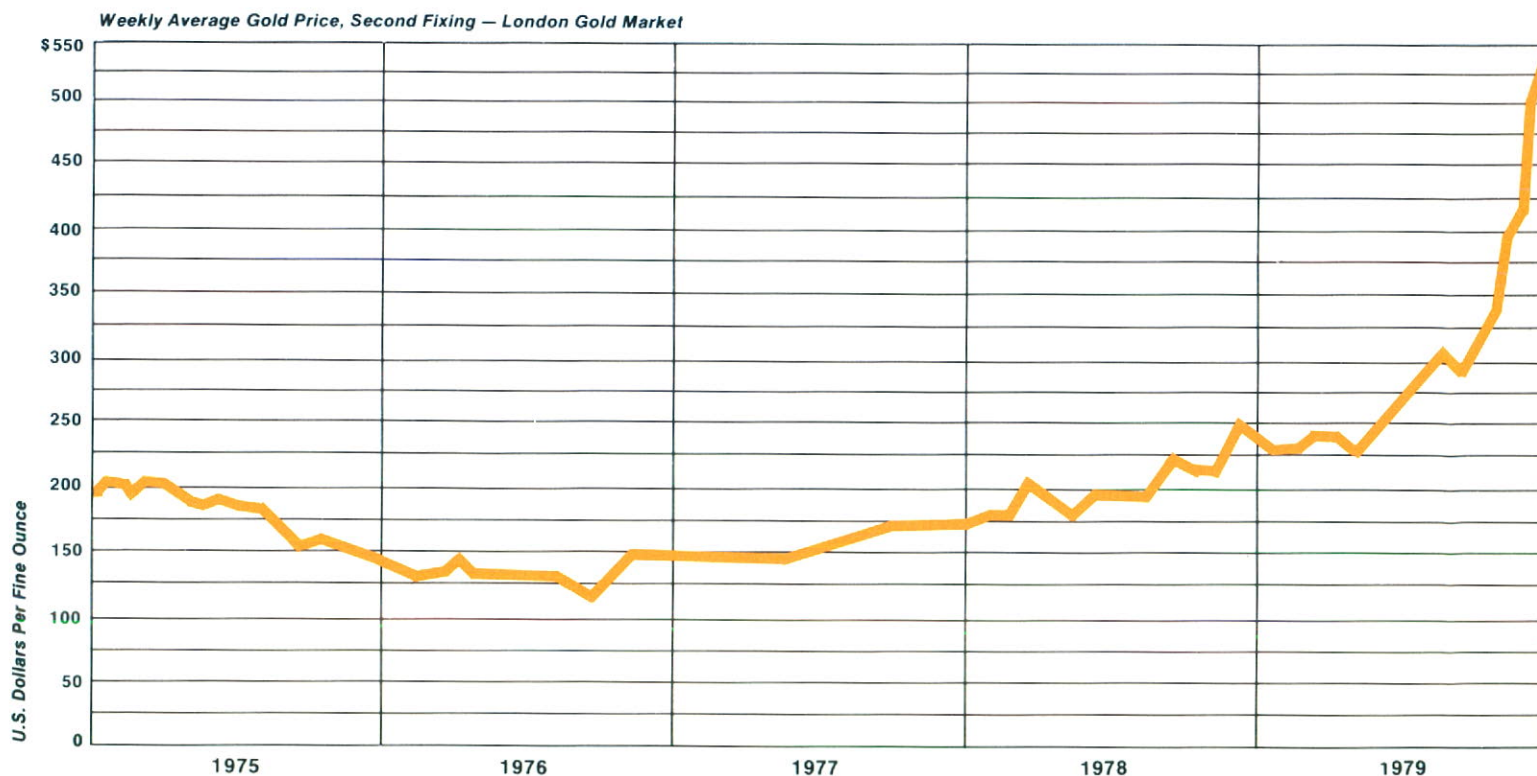


## Financial Summary:

|                            | 1979     | 1978    | 1977    | 1976    | 1975    |
|----------------------------|----------|---------|---------|---------|---------|
| <b>Millions of Dollars</b> |          |         |         |         |         |
| Production revenue         | \$ 54.8  | \$ 40.8 | \$ 44.5 | \$ 38.4 | \$ 25.7 |
| *Net income (loss)         | (5.7)    | 15.6    | 8.4     | 7.1     | 8.4     |
| Working capital (deficit)  | 39.6     | (1.0)   | 8.9     | 32.9    | 34.0    |
| <b>Dollars Per Share</b>   |          |         |         |         |         |
| *Net income (loss)         | \$(0.61) | \$ 1.68 | \$ 0.90 | \$ 0.77 | \$ 0.90 |
| Dividends declared         | .10      | .50     | .50     | .50     | .50     |

\*Restated for 1975 to 1978

## The Gold Picture:



## Directors' Report to the Shareholders

In September 1979, the Company announced that it was curtailing mining operations at the Agnew Lake uranium property, located west of Sudbury, Ontario. Under the curtailment plan, mining will be discontinued during the second quarter of 1980 and the property will be operated on a salvage leach basis. Leaching and milling operations are expected to continue at a diminishing level for several years, or as long as it is economic to recover uranium from the inventory of broken rock in underground stopes and on the surface stockpile. The property will then be rehabilitated and closed.

As a result of this decision, the accumulated expenditures and costs associated with the Agnew Lake property, which amounted to \$59.5 million, net of income tax credits, were written-off against 1979 operations. In determining the amount of this write-off, consideration was given to the quantity of uranium which will be produced during the salvage leach period, the estimated expenditures for continuing operations, rehabilitation and mine closure and the uranium loan and delivery commitments. The curtailment of operations has been proceeding according to plan and, the Company feels that it has adequately provided for all future costs associated with the property.

Due to this special charge, the Company incurred a net loss of \$5.7 million, or 61 cents per share in 1979, compared to restated net income of \$1.68 per share in 1978, as follows:

|                             | 1979             | 1978<br>(Restated) |
|-----------------------------|------------------|--------------------|
| Profit before special items | \$ 32,352,000    | \$ 13,404,000      |
| (Deduct) add special items: |                  |                    |
| Agnew Lake write-off        | (59,464,000)     |                    |
| Other items                 | 21,434,000       | 2,205,000          |
|                             | (38,030,000)     | 2,205,000          |
| Net (loss) income           | \$ (5,678,000)   | \$ 15,609,000      |
| Net (loss) income per share | <u>\$ (0.61)</u> | <u>\$ 1.68</u>     |

Other special items in 1979 included gains from two property disposal transactions. Effective November 1, 1979, the Company sold one-quarter of its interest in the Canadian Hunter Joint Venture gas and oil properties and assets to Domtar Energy Inc. Proceeds from the sale amounted to \$34.5 million and resulted in an after-tax gain of \$17.1 million. In May 1979, the Company sold its interests in the Grum and Swim Lakes mining claims, located in the Yukon Territory, together with its shares of Vangorda Mines Limited, to Cyprus Anvil Mining Corporation for a total consideration of \$14.0 million. The after-tax gain on this disposal was \$4.2 million.

Production revenue and operating earnings improved over those of the previous year due to higher gold, zinc and lead prices and, from increased production at the Canadian Electrolytic Zinc reduction plant.

On November 16, 1979, the Company acquired a 27.3% interest in the common shares of Zinor



## Directors' Report to the Shareholders (continued)

Holdings Limited through a one-for-one share exchange for common shares of Noranda Mines Limited. The Company follows the equity method of accounting for its investment in Zinor. The principal asset of Zinor at December 31, 1979 was its 23.6% interest in the common shares of Noranda Mines Limited and, Zinor accounts for this investment by the equity method. As a result, the Company's share of earnings of associated companies amounted to \$24.7 million in 1979 and, its 1978 net income was retroactively restated to \$15.6 million, or \$6.0 million higher than previously reported.

The Company's financial position at December 31, 1979, showed considerable improvement over the previous year-end. Working capital increased by \$40.5 million and the uranium loan was reduced to a manageable level. Funds generated from operations increased to \$17.4 million and proceeds from the property transactions discussed previously, totalled \$48.5 million. Major expenditures included \$19.6 million associated with the Agnew Lake property and, \$9.1 million on the Canadian Hunter Joint Venture programmes. During 1979, 1,400,000 pounds of uranium concentrates were purchased. Funds held in escrow, which amounted to \$44.5 million at December 31, 1978, were used to partially finance these purchases. A total of 1,237,000 pounds of concentrates were returned to Eldorado Nuclear Limited, reducing the uranium loan balance to 717,500 pounds at December 31, 1979.

The Company paid a dividend of 10 cents per share during the first quarter of 1979 and, subsequently, omitted further dividend payments for the present time. Quarterly dividends totalling 50 cents per share were paid in 1978.

Production of gold from the Kerr Addison mine at Virginiatown, Ontario, declined to 62,300 ounces in 1979 produced from 193,000 tons of ore

grading 0.33 ounces of gold per ton, compared to 83,200 ounces in 1978 produced from 256,000 tons of similar grade ore. Operating earnings increased due to the strong market for gold during 1979 when the average second fixing on the London Gold Market was \$307 (U.S.) per ounce, compared to \$193 (U.S.) per ounce during the previous year. By year-end, the gold price had reached \$500 (U.S.) per ounce, reflecting inflationary expectations due to higher OPEC oil prices and international political pressures resulting from events in Iran and Afghanistan. This higher level of gold prices has allowed the Virginiatown operation to maintain gold reserves at 110,000 ounces, a slight decline from the 120,000 ounces which were estimated at the previous year-end. The Company has been concentrating on gold exploration programmes in the general area of the mine, as it has excess milling capacity available.

Production from the 75% owned Mogul of Ireland zinc-lead mine, located in County Tipperary, Republic of Ireland, amounted to 673,000 tons grading 5.6% zinc and 3.2% lead, compared to 722,000 tons grading 5.9% zinc and 2.9% lead in 1978. Operating profits improved over those of the previous year due to higher zinc and lead prices. Proven reserves at year-end were 2.2 million tons grading 5.6% zinc and 2.6% lead. Due to the expected short term life of this mine and the uncertainty as to whether metal prices in the near term will be sufficient to permit the Company to recover the carrying value of its investment in Mogul, Kerr Addison provided a reserve against its share of Mogul's 1979 profits.

The 9.8% owned Canadian Electrolytic Zinc reduction plant in Valleyfield, Quebec, operated at a rate of 602 tons of zinc slab per day, or 92% of plant capacity, compared to a production rate of 73% during 1978. The plant demonstrated during periods in 1979, that its annual capacity was 240,000 tons, compared to designed capacity of

*Aerial view of the zinc reduction plant of Canadian  
Electrolytic Zinc Limited, located on the St.  
Lawrence River at Valleyfield, Quebec.*







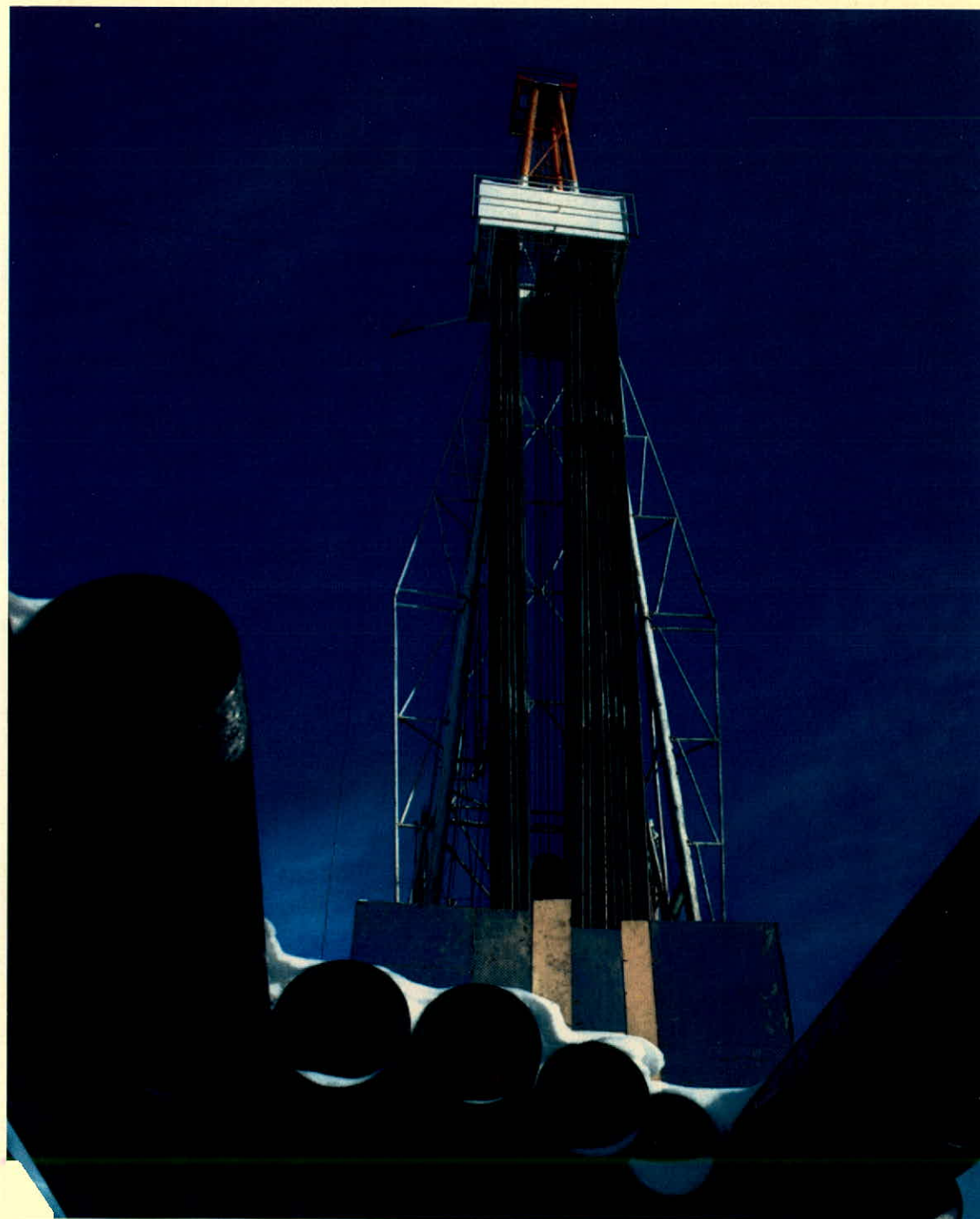
## Directors' Report to the Shareholders (continued)

225,000 tons. Strong demand for zinc during the year permitted the plant to operate at the higher rates and this resulted in improved earnings. In 1980, the plant is expected to operate at near capacity levels, although operating margins are expected to be adversely affected by the current shortages in zinc concentrate supplies.

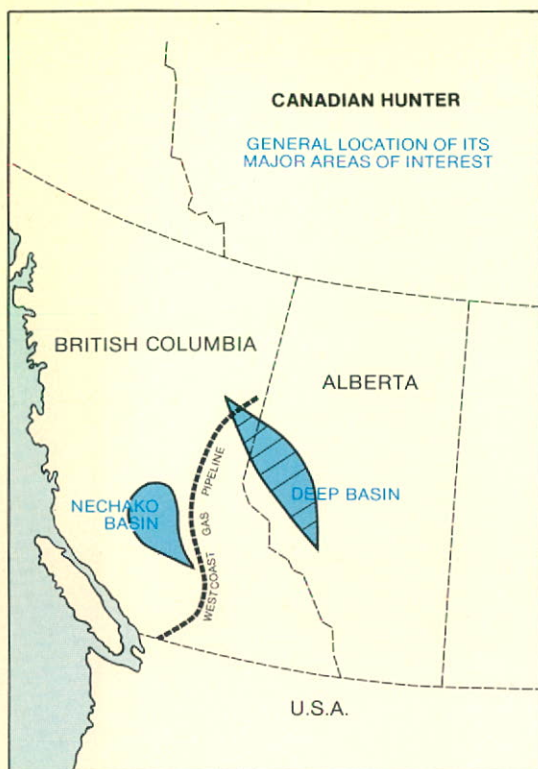
The Canadian Hunter Joint Venture continues to concentrate its exploratory drilling activity in the Elmworth and adjacent Deep Basin areas in Alberta and British Columbia. A major portion of development and reserve delineation drilling in 1979 was also done in Elmworth-Wapiti and other Alberta Deep Basin accumulations. There are now 76 Canadian Hunter interest wells along the Falher productive trend in Elmworth-Wapiti. Additional commercial gas accumulations in the Cadotte and Cadomin formations have also been partially delineated in these field areas.

Canadian Hunter participated in the drilling of 124 exploration and development wells in 1979, which resulted in production capability being found in 23 oil wells and 76 gas wells, giving an overall drilling success ratio of 80%.

Net production of oil and natural gas liquids averaged 1,035 barrels per day. Average gas production was 20.3 million net cubic feet per day. Gas sales through the Elmworth and Wapiti plants (Hunter's interest — approximately 50%) commenced on November 1, 1979 with production during the first year limited to an average of 30 million cubic feet (MMcf) per day from each plant. This will be increased from November 1, 1980 when the contract rate moves to a reserve basis of 1 MMcf per day for each 7,300 MMcf of reserves. At South Gold Creek, about 50 miles southeast of Elmworth, three additional wells were drilled for gas sales commencing early in 1980 at an initial rate of 8 MMcf per day (Hunter's share — 1.9 MMcf per day).



*Canadian Hunter well drilling in Deep Basin, Alberta.*



*Gas processing plant operated by Canadian Hunter at Elmworth, Alberta. (on stream November, 1979).*



## Directors' Report to the Shareholders (continued)

During 1979, land acquisitions by Hunter at Alberta and British Columbia Crown sales totalled 153,000 net acres. Effective October 1, 1979, its interests in wells and undeveloped lands in the Lloydminster heavy oil area were traded to Home Oil in return for a net 118,000 acres of exploratory lands held by Home in the British Columbia Deep Basin area. Hunter's land holdings at year-end totalled 2.1 million net acres.

Shortly after the year-end, exploration rights were acquired on 4.8 million acres of Crown permits in the Nechako Basin in the central interior of British Columbia. Hunter is committed to a \$27.5 million expenditure on geophysical work and drilling on these lands over the next five years.

Esso Resources' \$150 million farm-in on Hunter lands will be expended by mid-1980, at which time Kerr Addison's interest in the Canadian Hunter Joint Venture will have been reduced to approximately 11.1%. Kerr Addison's share of gas reserves at December 31, 1979, before royalty and after allowance for the maximum interest to be earned by Esso, was 71 billion cubic feet proven and 131 billion cubic feet proven plus probable.

Turning again to the Agnew Lake operation, the development of a production unit with an estimated annual capacity of one million pounds of uranium concentrate commenced at Agnew Lake in 1976. Tests conducted prior to making the production decision indicated that a bacterial leaching system was suitable for extracting uranium from the Agnew Lake ores and, this process was incorporated into the design of the mining and milling plant. However, the leaching process did not perform as expected. During the past two years the Company has made a number of major changes in an attempt to improve the extraction process. Despite these efforts, yields of uranium concentrate continued to be substantially

below the results obtained during the earlier feasibility tests and, production during 1978 and 1979 was limited to 400,000 and 448,000 pounds, respectively.

In September 1979, the Company determined that uranium extraction rates could not be increased to economic levels. Prior to the decision to curtail operations, the Company carried out studies on changing the operation to a more conventional mining and uranium recovery plant. These studies confirmed that the indicated grades of the remaining reserves were too low to justify additional investment in the property.

Agnew Lake is an example of the risks inherent in the mining business. The Company made a sizeable investment in an unsuccessful attempt to apply new technology to a low grade deposit. Despite the substantial loss incurred on the Agnew Lake property, the financial position of the Company is sound. This is due primarily to its excellent assets and the strong metal markets which existed during the past couple of years.

Kerr Addison is continuing to emphasize exploration as a means to expanding its mineral base. As an alternative, the Company's financial resources allow it to actively seek acquisitions of merit. In the interim, its equity investment in Zinor Holdings Limited will provide a broad base for future earnings.

On behalf of the Board,

William James,  
President.

Toronto, Canada  
February 15, 1980





*The Kerr Addison gold mine  
at Virginiatown, Ontario — in  
1956, operating at 4,500 tons  
per day.*

*From 1938 to 1979, it has  
produced 35.7 million tons  
of ore at an average annual  
rate ranging from 4,556  
tons per day in 1960 to 529  
tons per day in 1979. Total  
gold production amounted  
to 9.9 million ounces having  
a realized value of \$454.4  
million (C.F.).*



## Report on Mining Operations

### KERR ADDISON MINE

The Kerr Addison gold mine produced 192,936 tons of ore during 1979, averaging 529 tons per day at a grade of 0.33 ounces of gold per ton. Production amounted to 62,332 ounces of gold having a realized value of \$22.08 million, an increase of 16% over the previous year.

Mining operations were carried on between the 300 and 4200 levels. The flow ore zone produced 58% of the mill feed having a grade of 0.48 ounces per ton with the carbonate ore zone providing the balance at a grade of 0.12 ounces per ton. Square-set mining methods accounted for 58% of the tonnage broken, shrinkage contributed 22% with the balance coming from the cut and fill operations.

Operating costs per ounce of gold produced increased 17% over those of 1978. Labour costs increased 15% and were 71% of operating costs.

As a result of the increasing price of gold, ore reserves and ore potential are continually being reviewed. At December 31, 1979, mineable ore reserves with dilution allowance were estimated at 444,926 tons grading 0.25 ounces of gold per ton resulting in an increase of 121,889 tons after the milling of 192,936 tons. These reserves should ensure continued operation at least through to the end of 1981.

The total work force at the property was reduced from 379 persons to 330 at year-end.

### MOGUL OF IRELAND LIMITED (Kerr Addison 75% Interest)

During 1979, the Mogul mine milled 673,353 tons of ore at a grade of 3.15% lead and 5.57% zinc, producing in concentrates 14,611 tons of lead and 31,379 tons of zinc, resulting in recoveries of 66.07% and 82.95% for lead and zinc respectively. Throughput was 6.7% below that of the previous year while the combined ore grade was approximately the same.

Mine development continued in the down-dip extensions of the "B" and "G" Zones and in the "G" Zone pillar extraction areas. Stope preparation work commenced in "K" Zone. Total development advance was 11,888 feet. Underground diamond drilling totalled 16,805 feet, comprising 137 hole completions. Development contributed 17% of the ore broken. Waste rock removed amounted to 38,558 tons.

Total ore broken from all sources amounted to 633,406 tons, a decrease of 9% from last year. The "B" and "K" Zones provided 59% with the balance coming from the "G" Zone. Pillar recovery accounted for 22%. Longhole drill footage totalled 193,108. Backfill placed underground amounted to 94,035 tons. The drilled off reserve at year-end was 154,143 tons.

Total operating costs per ton milled including exploration and marketing increased 19.6% over the previous year. Power costs alone increased 30% during the year and accounted for 12.2% of operating costs. Expenditures on labour and

related benefits increased 15.7% and were 51.8% of direct operating costs. The inflation rate in Ireland was 16.0% compared to 7.9% for 1978.

Mineable ore reserves with dilution at year end were as follows:

| Proven Ore                 | S.D. Tons | % Lead | % Zinc |
|----------------------------|-----------|--------|--------|
| "G" Zone:                  | 798,003   | 2.22   | 6.93   |
| "B" Zone:                  | 886,468   | 3.62   | 4.59   |
| "K" Zone:                  | 353,396   | 1.09   | 4.75   |
| Broken:                    | 12,650    | 3.74   | 7.30   |
|                            | 2,050,517 | 2.64   | 5.54   |
| Probable Ore               |           |        |        |
| "G" Zone:                  | 22,392    | 1.38   | 9.68   |
| "B" Zone:                  | 77,630    | 2.53   | 4.84   |
| "K" Zone:                  | 18,360    | 0.70   | 5.31   |
|                            | 118,382   | 2.03   | 5.83   |
| Total Proven and Probable: | 2,168,899 | 2.61   | 5.56   |
| Possible Ore               |           |        |        |
| "G" Zone:                  | 217,197   | 3.18   | 4.86   |
| "B" Zone:                  | 349,943   | 3.48   | 3.82   |
| "K" Zone:                  | 635,804   | 2.04   | 4.95   |
|                            | 1,202,944 | 2.66   | 4.61   |
| Total Reserves:            | 3,371,843 | 2.63   | 5.22   |

At year-end the total work force including contractors and exploration personnel was 508, an increase of 10 from last year. The annual turnover rate was 10%. The current National Wage Policy will expire in August of 1980.

### **AGNEW LAKE MINES LIMITED**

On September 21, 1979, the decision was made to curtail development and mining operations at Agnew Lake Mines Limited and place the operation on a salvage leach basis. This action was necessary as uranium extraction, since initial production commenced in June 1977, has been substantially below expectations, resulting in production costs exceeding the market value of the uranium recovered. Since September, mining activity has been gradually reduced, completing the mining of a number of stopes already developed. Mining operations will be completed early in 1980, with leaching continuing for a period of approximately two years.

During 1979, production totalled 448,000 pounds of uranium. The surface leach pile provided approximately 43% of the uranium going into solution, with the balance coming from the underground stopes. At year-end, there were 4,300,000 tons of material under leach. This figure will increase to approximately 5,000,000 tons when mining is completed early in 1980. Solution inventory was 370,000,000 litres containing 84,000 pounds of uranium.

Mine development totalled 29,047 feet, comprising 25,047 feet of trackless drives and 4,000 feet of raising.

Extractable proven and probable reserves, with dilution, at December 31, 1979, were estimated at six million tons in place, having a uranium content of one pound per ton.

Long hole drilling for production and other requirements totalled 361,522 feet. The total ore broken was 941,075 tons. Ore brought to surface and placed on the leachpile was 404,478 tons.

Mine ventilation capacity was increased to 820,000 C.F.M. during the year with the installation of a 110 inch 1,000 h.p. fan which provided more than adequate ventilation to maintain dust and radon levels well below permissible limits. Environmental standards were also maintained within acceptable limits throughout the year.

The ion exchange and solvent extraction plants performed throughout the year at an average efficiency of 98.7% with an availability of 95.8%. Substantial improvements were effected during the year in leaching technology employed both on the surface leachpile and in the underground flood leach stopes.

At the end of the year the work force totalled 284 persons including contractors, a decrease of 250 from last year. This substantial reduction resulted from the curtailment of development and mining activities in September. Excellent co-operation has been received from mining companies in the Elliot Lake and Sudbury areas, as well as from companies in the Noranda Group, in the placing of personnel in other employment.

### **EXPLORATION**

During 1979, the exploration department's project expenditures were about \$3.5 million, of which

forty percent was recovered from joint venture participants. Canadian exploration activities were concentrated mainly on gold prospects in the Provinces of Ontario and Quebec, as well as on base metal exploration in British Columbia. A lesser emphasis was placed on uranium projects in Saskatchewan and the Northwest Territories and, on the Fernandez Joint Venture in New Mexico, U.S.A.

Several small, known, gold deposits located near the Kerr Addison mine at Virginiatown, Ontario are being re-evaluated in view of the current market price for gold.

The support of the directors and officers during the past year is very much appreciated and, on their behalf, I would like to thank all employees of the Kerr Addison group for their continuing efforts and achievements. The encouraging future of this Company is a tribute to their loyalty and interest.

Respectfully submitted,

P. S. Cross,  
Executive Vice-President.

Toronto, Canada  
February 15, 1980



**Kerr  
Addison  
Mines  
Limited**

(Incorporated under the laws of Ontario)

**Consolidated  
Balance Sheet**

December 31, 1979

(with comparative figures at  
December 31, 1978 — note 6)

**ASSETS**

1979

1978

|                                                                                                                        |               |               |
|------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>Current:</b>                                                                                                        |               |               |
| Cash, term deposits and short-term notes                                                                               | \$ 21,922,000 | \$ 4,921,000  |
| Marketable securities and short-term investments, at cost (quoted market value 1979 — \$6,888,000; 1978 — \$3,546,000) | 3,111,000     | 3,111,000     |
| Concentrates, bullion and metals awaiting settlement, in transit and on hand                                           | 18,803,000    | 13,795,000    |
| Accounts and interest receivable                                                                                       | 5,125,000     | 2,408,000     |
| Supplies and materials, at cost                                                                                        | 3,253,000     | 3,098,000     |
| Prepaid expenses                                                                                                       | 198,000       | 232,000       |
| Total current assets                                                                                                   | 52,412,000    | 27,565,000    |
| <b>Investments:</b>                                                                                                    |               |               |
| Associated companies (note 6)                                                                                          | 74,943,000    | 54,855,000    |
| Sundry, at cost                                                                                                        | 764,000       | 811,000       |
|                                                                                                                        | 75,707,000    | 55,666,000    |
| <b>Fixed:</b>                                                                                                          |               |               |
| Property, plant and equipment, at cost                                                                                 | 46,290,000    | 45,678,000    |
| Less accumulated depreciation and depletion                                                                            | 34,633,000    | 32,205,000    |
|                                                                                                                        | 11,657,000    | 13,473,000    |
| <b>Deferred exploration and development expenditures:</b>                                                              |               |               |
| Agnew Lake property (note 2)                                                                                           |               | 77,733,000    |
| Gas and oil properties (note 5)                                                                                        | 29,336,000    | 29,630,000    |
| Grum Project                                                                                                           |               | 8,112,000     |
| Other                                                                                                                  |               | 642,000       |
|                                                                                                                        | 29,336,000    | 116,117,000   |
| Deferred income taxes                                                                                                  | 4,646,000     |               |
| <b>Other:</b>                                                                                                          |               |               |
| Proceeds from sale of borrowed uranium concentrate, in escrow (note 2(c))                                              |               | 44,465,000    |
|                                                                                                                        | \$173,758,000 | \$257,286,000 |

(See accompanying notes to consolidated financial statements)



## LIABILITIES AND SHAREHOLDERS' EQUITY

1979

1978

|                                                                                 |                      |                      |
|---------------------------------------------------------------------------------|----------------------|----------------------|
| <b>Current:</b>                                                                 |                      |                      |
| Bank loan                                                                       |                      | \$ 12,860,000        |
| Accounts payable and accrued charges                                            | \$ 8,478,000         | 12,740,000           |
| Income and mining taxes payable                                                 | 4,375,000            | 2,942,000            |
| Total current liabilities                                                       | 12,853,000           | 28,542,000           |
| Provision for mine closures (notes 2 and 3)                                     | 39,477,000           | 2,000,000            |
| Deferred income taxes                                                           |                      | 10,697,000           |
| Deferred revenue (note 2(d))                                                    |                      | 88,102,000           |
| Minority interest in subsidiaries                                               | 2,040,000            | 1,742,000            |
| <b>Shareholders' equity (note 7):</b>                                           |                      |                      |
| Share capital                                                                   | 41,627,000           | 41,566,000           |
| Retained earnings                                                               | 80,009,000           | 86,618,000           |
|                                                                                 | 121,636,000          | 128,184,000          |
| Less the company's pro rata interest in its shares held by associated companies | (2,248,000)          | (1,981,000)          |
|                                                                                 | 119,388,000          | 126,203,000          |
|                                                                                 | <u>\$173,758,000</u> | <u>\$257,286,000</u> |

On behalf of the Board: William James, Director      P. S. Cross, Director

### Auditors' Report

To the Shareholders of Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited as at December 31, 1979 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Kerr Addison Mines Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary company, Mogul of Ireland Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the equity method of accounting for its investment in an associated company as referred to in note 6, on a basis consistent with that of the preceding year.

Clarkson Gordon, Chartered Accountants  
Toronto, Canada, February 18, 1980.



**Consolidated  
Statement of  
Operations**

For the year ended  
December 31, 1979  
(with comparative  
figures for 1978 — note 6)

|                                                                                                                                                                                                         | 1979                  | 1978                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Mine operations:</b>                                                                                                                                                                                 |                       |                      |
| Value of production                                                                                                                                                                                     | \$ 54,846,000         | \$ 40,771,000        |
| Cost of metal production                                                                                                                                                                                | 34,815,000            | 28,645,000           |
|                                                                                                                                                                                                         | 20,031,000            | 12,126,000           |
| Dividends and interest income                                                                                                                                                                           | 1,062,000             | 1,689,000            |
|                                                                                                                                                                                                         | 21,093,000            | 13,815,000           |
| <b>Deduct (add):</b>                                                                                                                                                                                    |                       |                      |
| Administrative and general expenses                                                                                                                                                                     | 624,000               | 576,000              |
| Outside exploration expenses                                                                                                                                                                            | 2,124,000             | 2,017,000            |
| Depreciation and depletion                                                                                                                                                                              | 2,580,000             | 2,568,000            |
| Income and mining taxes (including deferred taxes of<br>\$3,447,000 in 1979; \$2,255,000 in 1978)                                                                                                       | 7,902,000             | 3,627,000            |
| Minority interest in profits of subsidiary companies                                                                                                                                                    | 545,000               | 81,000               |
| Foreign currency translation gain                                                                                                                                                                       | (302,000)             | (418,000)            |
|                                                                                                                                                                                                         | 13,473,000            | 8,451,000            |
|                                                                                                                                                                                                         | 7,620,000             | 5,364,000            |
| Share of earnings of associated companies (note 6)                                                                                                                                                      | 24,732,000            | 8,040,000            |
| <b>Profit before the following</b>                                                                                                                                                                      | 32,352,000            | 13,404,000           |
| <b>Add (deduct):</b>                                                                                                                                                                                    |                       |                      |
| Write-off of accumulated expenditures and costs associated<br>with the Agnew Lake uranium property and provision for<br>mine closure (net of deferred income tax reductions —<br>\$28,000,000) (note 2) | (59,464,000)          |                      |
| Gain on sale of interest in gas and oil joint venture (net of<br>deferred income taxes \$8,035,000) (note 5)                                                                                            | 17,091,000            |                      |
| Gain on sale of Anvil District, Yukon, mining properties and<br>shares of Vangorda Mines Limited (net of deferred income<br>taxes — \$1,175,000)                                                        | 4,227,000             |                      |
| Gain on disposal of other assets and marketable securities<br>(net of deferred income taxes 1979 — Nil; 1978 — \$350,000)                                                                               | 116,000               | 2,205,000            |
| <b>Net (loss) income for the year</b>                                                                                                                                                                   | <u>\$ (5,678,000)</u> | <u>\$ 15,609,000</u> |
| <b>Net (loss) income per share (notes 6 and 7)</b>                                                                                                                                                      | <u>\$(.61)</u>        | <u>\$1.68</u>        |

(See accompanying notes to consolidated financial statements)



## Consolidated Statement of Retained Earnings

For the year ended  
December 31, 1979  
(with comparative  
figures for 1978 — note 6)

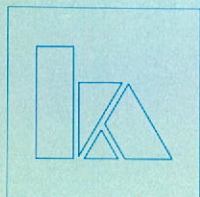
|                                                                                                                                                                   | 1979                | 1978                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Retained earnings at beginning of year, as previously reported</b>                                                                                             | \$53,032,000        | \$48,155,000        |
| Adjustment for the cumulative effect on prior years of applying retroactively the equity method of accounting for the investment in associated companies (note 6) | 33,586,000          | 27,501,000          |
| <b>Retained earnings at beginning of year, as restated</b>                                                                                                        | 86,618,000          | 75,656,000          |
| Add net (loss) income for the year                                                                                                                                | (5,678,000)         | 15,609,000          |
|                                                                                                                                                                   | 80,940,000          | 91,265,000          |
| Deduct dividends (10¢ per share in 1979; 50¢ per share in 1978)                                                                                                   | 931,000             | 4,647,000           |
| <b>Retained earnings at end of year</b>                                                                                                                           | <u>\$80,009,000</u> | <u>\$86,618,000</u> |

## Consolidated Statement of Changes in Financial Position

For the year ended  
December 31, 1979  
(with comparative  
figures for 1978 — note 6)

|                                                                                                     | 1979                | 1978                |
|-----------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Source of funds:</b>                                                                             |                     |                     |
| Funds provided from operations                                                                      | \$17,350,000        | \$11,376,000        |
| Proceeds from sale of gas and oil properties (note 5)                                               | 34,527,000          |                     |
| Proceeds from sale of Anvil District, Yukon, mining properties and shares of Vangorda Mines Limited | 14,003,000          |                     |
| Dividends from associated companies                                                                 | 4,414,000           | 1,955,000           |
| Proceeds from sale of fixed and other assets                                                        | 283,000             | 5,042,000           |
| Proceeds from issuance of shares for cash                                                           | 61,000              | 16,000              |
| Other sources of funds (net)                                                                        | 344,000             | 285,000             |
|                                                                                                     | <u>70,982,000</u>   | <u>18,674,000</u>   |
| <b>Application of funds:</b>                                                                        |                     |                     |
| Expenditures on Agnew Lake property (note 2) — Exploration, development and other                   | 21,432,000          | 32,185,000          |
| Cost of concentrate purchased for return under loan agreement                                       | 42,666,000          |                     |
| Proceeds from sale of concentrate — Borrowed from Eldorado                                          |                     | (14,012,000)        |
| Own production                                                                                      |                     | (14,073,000)        |
| Proceeds from sale of borrowed concentrate placed in (released from) escrow (net)                   | (44,465,000)        | 10,400,000          |
|                                                                                                     | <u>19,633,000</u>   | <u>14,500,000</u>   |
| Expenditures on gas and oil properties (net) (note 5)                                               | 9,107,000           | 8,877,000           |
| Dividends                                                                                           | 931,000             | 4,647,000           |
| Additions to property, plant and equipment                                                          | 775,000             | 488,000             |
|                                                                                                     | <u>30,446,000</u>   | <u>28,512,000</u>   |
| <b>Increase (decrease) in working capital</b>                                                       | 40,536,000          | (9,838,000)         |
| <b>Working capital (deficiency), beginning of year</b>                                              | (977,000)           | 8,861,000           |
| <b>Working capital (deficiency), end of year</b>                                                    | <u>\$39,559,000</u> | <u>\$ (977,000)</u> |

(See accompanying notes to consolidated financial statements)





**Notes to  
Consolidated  
Financial  
Statements**

December 31, 1979

**1. Summary of significant accounting policies**

(a) Basis of presentation of financial statements —

The accompanying financial statements include, on a consolidated basis, the accounts of Kerr Addison Mines Limited and its subsidiary companies:

|                                    | <u>Percentage<br/>ownership</u> |
|------------------------------------|---------------------------------|
| Agnew Lake Mines Limited           | 100%                            |
| Keradamex, Inc.                    | 100%                            |
| Kerramerican, Inc. (non-operating) | 100%                            |
| Normetal Mines Limited             | 100%                            |
| Queмонт Mines Limited              | 100%                            |
| Mogul of Ireland Limited           | 75%                             |

The company follows the equity method of accounting for its investment in Zinor Holdings Limited (see note 6). Under the equity method the investment is initially recorded at cost and adjusted thereafter for the company's pro rata share of earnings less dividends received since the dates of investment.

(b) Exchange translation —

The financial statements of companies outside of Canada have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the year-end; fixed assets, depreciation and depletion provisions on the basis of rates prevailing at dates of acquisition, and income and expenses (other than depreciation and depletion) at average rates during the year. Exchange gains or losses resulting from such translation practices are reflected in the consolidated statement of operations.

(c) Concentrates, bullion and metals —

Consistent with industry practice, the company records as revenue the value of production of concentrates, bullion, and metals awaiting settlement, in transit and on hand at estimated net realizable value. (See also note 9).

(d) Property, plant and equipment —

Additions to property, plant and equipment are recorded at cost and include previously deferred exploration and development expenditures on properties which have been brought into production. Depreciation and depletion thereon are provided at rates designed to write off the costs over their estimated useful lives which, in the case of property, plant and equipment of Mogul of Ireland Limited have been determined on units of production based on estimated reserves. Substantially all other fixed assets are being depreciated in equal annual amounts over their estimated useful lives.

(e) Exploration and development expenditures —

*Minerals —*

Mineral exploration and development expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in the consolidated statement of operations. If the properties are brought into production, deferred exploration and development expenditures relating thereto are reclassified with property, plant and equipment and amortized as explained in note 1(d).

*Gas and Oil —*

The company participates through joint venture agreements with Noranda Mines Limited and others in certain gas and oil properties held by Canadian Hunter Exploration Limited as trustee.

The company has adopted the full cost method of accounting for its gas and oil activities through the joint venture, whereby all costs relating to the exploration for and development of gas and oil reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells.



Substantially all of the gas and oil properties held by the joint venture are considered by management to have been in the exploratory or development stage to December 31, 1979 and accordingly, all expenditures (less revenues) incurred to that date, including interest on funds borrowed to finance the company's participation, are deferred in the consolidated accounts. These costs will be amortized to income by the unit of production method based on estimated proven gas and oil reserves commencing January 1, 1980, the date management considers a commercial level of production to have been attained.

(f) Income taxes —

The company follows the tax allocation method of accounting for income taxes. Under this method, timing differences between reported and taxable income result in deferred income taxes. The principal timing differences relate to exploration and development expenditures and capital cost allowances which are claimed for tax purposes in years which are earlier, or later, than those in which the expenditures are written off and depreciation is charged in the consolidated statement of operations.

|                                                                                                                                                                                    | Gross<br>expenditures | Value of<br>uranium<br>produced | Net<br>expenditures |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------------------|---------------------|
| Balance, January 1, 1979                                                                                                                                                           | \$ 96,798,000         | \$(19,065,000)                  | \$77,733,000        |
| Expenditures and revenue<br>to September 30, 1979                                                                                                                                  | 21,432,000            | (13,619,000)                    | 7,813,000           |
| Loss on purchases of<br>uranium concentrate                                                                                                                                        | 1,918,000             |                                 | 1,918,000           |
| Estimated expenditures for<br>operations,<br>rehabilitation and<br>closure of mine<br>property, and estimated<br>value of uranium to be<br>produced during<br>salvage leach period | 34,000,000            | (34,000,000)                    | —                   |
|                                                                                                                                                                                    | <u>\$154,148,000</u>  | <u>\$(66,684,000)</u>           | <u>87,464,000</u>   |
| Less estimated deferred<br>income tax reductions                                                                                                                                   |                       |                                 | <u>28,000,000</u>   |
| Net write-off of<br>accumulated<br>expenditures and costs<br>associated with the<br>Agnew Lake uranium<br>property and provision<br>for mine closure                               |                       |                                 | <u>\$59,464,000</u> |

## 2. Agnew Lake

- (a) Effective August 31, 1979, Agnew Lake Mines Limited ("Agnew Lake") increased its interest in the Agnew Lake property to 100% by acquiring the 10% minority position in the joint venture for \$775,000.
- (b) As a result of the decision to curtail operations and ultimately close the Agnew Lake property, a special charge of \$59,464,000 has been made against 1979 operations. This charge represents all expenditures and costs associated with the project, net of related deferred income tax reductions, as follows:

- (c) Under the terms of a 1976 loan agreement with Eldorado Nuclear Limited ("Eldorado"), Agnew Lake has borrowed, and delivered to its customers, a total of 2,000,000 pounds of uranium concentrate. To December 31, 1979 it has returned 1,282,500 pounds (45,500, in 1978; 1,237,000 in 1979) of concentrate to Eldorado, thereby reducing the loan balance to 717,500 pounds of concentrate which must be returned, in kind, to Eldorado not later than June 30, 1982.

Interest is payable (at a current rate of 11½%) to Eldorado on the loan value of borrowed concentrate (approximately \$32,000,000 at December 31, 1979). Interest received by Agnew Lake on funds previously held in escrow, has been applied as a credit against these costs. Net interest expense in 1979 of \$4,108,000 (1978 — \$4,250,000) is included in the net write-off of expenditures and costs associated with the Agnew Lake mine project.

The agreement also provides that proceeds from the sale of borrowed concentrate in excess of 1,000,000 pounds, be placed in escrow with a Canadian chartered bank until such concentrate is



## Kerr Addison Mines Limited

### Notes to Consolidated Financial Statements (continued)

returned in kind. The \$44,465,000 held in escrow at December 31, 1978 was released to the company during 1979 when the loan balance was reduced below this level and the proceeds were used to partially finance the purchase of 1,400,000 pounds of uranium concentrate in 1979.

If Agnew Lake should be unable to meet its obligations to return the borrowed concentrate in kind, Eldorado may purchase concentrate from an outside party and Agnew Lake must reimburse Eldorado for all costs relating to such purchases.

Kerr Addison Mines Limited has guaranteed all obligations of Agnew Lake under this loan agreement.

- (d) At December 31, 1978, proceeds from the sale of borrowed concentrate amounting to \$88,102,000 were recorded in the consolidated balance sheet as "deferred revenue", to be included (less production costs) in the consolidated statements of operations of future periods as the borrowed concentrate was returned to Eldorado. As a result of the decision to curtail operations at the mine, the "deferred revenue" account effectively became a loan obligation to Eldorado and is reflected in this manner (as part of the "provision for mine closures") in these financial statements.
- (e) In addition to its obligation to return the 717,500 pounds of borrowed concentrate to Eldorado by June 30, 1982, Agnew Lake has firm commitments to deliver 450,000 pounds of uranium concentrate to customers during 1980 and 1981. In management's opinion the likelihood of losses being incurred on settlement of these loan and delivery commitments is remote.

#### 3. Provision for mine closures

In addition to costs associated with the closure of the Agnew Lake property, the provision for mine closures at December 31, 1979, includes estimated net expenditures to be incurred for reclamation, rehabilitation and closure of other mining properties currently in operation or closed in prior years but for which rehabilitation costs are still being incurred. The balance of \$39,477,000 represents the estimated net mine closure expenditures to be incurred in periods after 1980. The \$2,000,000 provision for environmental costs included in the consolidated balance sheet at December 31, 1978, has been reclassified in 1979 as part of the provision for mine closures.

#### 4. Mogul of Ireland Limited

The remaining life of this subsidiary's mine, based on current reserves, is estimated to be three to five years. On the basis of present cost projections and reserves, it is uncertain whether future levels of prices for zinc, lead and silver will be sufficient to cover total projected costs of mining, including depreciation, depletion and amortization, and estimated mine closure costs. The recovery of the carrying value of the company's 75% share of Mogul's assets, net of liabilities (included in the consolidated balance sheet at December 31, 1979 at approximately \$6,800,000) will be dependent, among other things, on the level of metal market prices to be realized during the mine's remaining life.

#### 5. Gas and oil properties

The company participates through a joint venture in gas and oil properties in Alberta, British Columbia and Saskatchewan held by Canadian Hunter Exploration Limited as trustee.

Effective November 1, 1979, the company sold one-quarter of its interest in these gas and oil properties for a cash consideration of \$34,527,000. The resulting net gain of \$17,091,000 has been recorded as income in 1979. This transaction reduces the company's interest in the Canadian Hunter joint venture by approximately 3.7 percentage points to 11.1%.

Under the terms of the joint venture agreements, the company must contribute its share of future expenditures (estimated at \$16,000,000 for 1980) on the properties in order to maintain its percentage interest therein.

The company's interest in these gas and oil properties is included in the consolidated balance sheet as deferred exploration and development expenditures which comprise:



|                                                 | Balance<br>January 1,<br>1979 | Changes<br>during<br>the year | Balance<br>December 31,<br>1979 |
|-------------------------------------------------|-------------------------------|-------------------------------|---------------------------------|
| Expenditures (net) to acquire original interest | \$ 19,750,000                 |                               | \$19,750,000                    |
| Share of additional joint venture expenditures  | 9,987,000                     | \$ 8,629,000                  | 18,616,000                      |
|                                                 | 29,737,000                    | 8,629,000                     | 38,366,000                      |
| Share of proceeds on sale of property interest  | (2,520,000)                   | 36,000                        | (2,484,000)                     |
| Share of net production revenues                | (1,097,000)                   | (1,076,000)                   | (2,173,000)                     |
|                                                 | 26,120,000                    | 7,589,000                     | 33,709,000                      |
| Bank interest (1978 — \$2,474,000)              | 3,510,000                     | 1,518,000                     | 5,028,000                       |
|                                                 | <u>\$ 29,630,000</u>          | <u>\$ 9,107,000</u>           | <u>38,737,000</u>               |
| Cost of properties sold in 1979                 |                               |                               | 9,401,000                       |
|                                                 |                               |                               | <u>\$29,336,000</u>             |

These expenditures will be amortized to income by the unit of production method based on estimated proven gas and oil reserves commencing on January 1, 1980, the date management considers a commercial level of production to have been attained.

#### 6. Zinor Holdings Limited

On November 16, 1979, the company acquired a 27.3% interest in the common shares of Zinor Holdings Limited ("Zinor") in consideration for 5,190,666 common shares of Noranda Mines Limited (representing a 5.93% interest in Noranda's outstanding share capital) which it held on that date, in a one-for-one share exchange.

Management believes the company is able to exercise significant influence over Zinor and has concluded it is appropriate that this investment be accounted for by the equity method.

Zinor's principal asset is its investment in common shares of Noranda Mines Limited which at December 31, 1979 amounted to 23,980,202 shares, or 23.6% of the outstanding common shares of Noranda. Zinor follows the equity method of accounting for this investment.

Because the consideration given to acquire its investment in the shares of Zinor was the long-term investment in Noranda, management believes this continuity of interests should be recognized and the most informative presentation of the company's consolidated financial position, changes therein and operating results is attained by applying

the equity method of accounting on a retroactive basis in order to present the same position at December 31, 1979 as would have resulted had the company been able to follow the equity method of accounting for its previous direct holding in Noranda, which was formerly carried at cost.

Accordingly, the investment in Zinor has been included in the balance sheet in a manner consistent with a step-by-step acquisition of long-term intercorporate investments, and the results of operations and balance of retained earnings as previously presented prior to November 16, 1979 have been restated on this retroactive basis. Differences between the cost of shares acquired and the underlying book value at the respective dates of acquisition are being amortized over the lives of the assets to which such differences were attributed.

As a result of Zinor's acquisition of treasury shares of Noranda for a cash consideration of \$19 per share, Kerr's indirect interest in Noranda increased from 5.93% to 6.46% as at November 16, 1979. The difference between the cost of these treasury shares and the underlying net book value at that date is also being amortized over the lives of the assets and liabilities to which it is attributed.

The aggregate of such purchase price differences at December 31, 1979 amounted to \$6,309,000 (\$1,939,000 in 1978). The effect of this retroactive restatement has been to increase the carrying value of the company's investment and the balance of retained earnings by \$33,586,000 at the end of 1978, and \$26,156,000 at the end of 1974, and to increase previously reported net income and earnings per share as follows:

|                        | 1978      | 1977    | 1976    | 1975    |
|------------------------|-----------|---------|---------|---------|
| Net income (loss)      |           |         |         |         |
| (in thousands):        |           |         |         |         |
| As previously reported | \$ 9,649  | \$6,186 | \$6,774 | \$8,952 |
| As restated            | \$ 15,609 | \$8,370 | \$7,128 | \$8,375 |
| Net income (loss)      |           |         |         |         |
| per share:             |           |         |         |         |
| As previously reported | \$1.01    | \$.65   | \$.71   | \$.94   |
| As restated            | \$1.68    | \$.90   | \$.77   | \$.90   |

In addition to the restatement of prior years' figures resulting from the retroactive application of equity accounting, certain of the 1978 figures presented for comparison purposes have been reclassified to conform to the presentation adopted for 1979.



**Notes to Consolidated Financial Statements** (continued)

**7. Shareholders' equity**

(a) Details of share capital are as follows:

|                                                                         | 1979              | 1978                |
|-------------------------------------------------------------------------|-------------------|---------------------|
|                                                                         | Number of shares  |                     |
| Authorized —                                                            |                   |                     |
| Common shares without par value                                         | 12,500,000        | 1,000               |
| Class A shares without par value                                        |                   | 11,500,000          |
| Class B shares without par value                                        |                   | 999,000             |
|                                                                         | <u>12,500,000</u> | <u>12,500,000</u>   |
| Issued and outstanding —                                                |                   |                     |
| Common                                                                  | 9,550,174         |                     |
| Class A                                                                 |                   | 9,063,524           |
| Class B                                                                 |                   | 481,425             |
|                                                                         | <u>9,550,174</u>  | <u>9,544,949</u>    |
| Company's pro rata interest in its shares held by associated companies  | <u>254,441</u>    | <u>250,173</u>      |
| Dividends declared during year                                          | \$ 954,000        | \$ 4,772,000        |
| Less company's pro rata share of dividends paid to associated companies | <u>(23,000)</u>   | <u>(125,000)</u>    |
| Net charge to retained earnings                                         | <u>\$ 931,000</u> | <u>\$ 4,647,000</u> |

On April 24, 1979 the shareholders approved a special resolution amending the articles of the company by:

- (i) reclassifying the Class A and Class B shares of the company both issued and unissued, as common shares and,
- (ii) providing that the directors may determine, with respect to any cash dividend declared payable, that shareholders resident in Canada and in specified jurisdictions outside Canada may elect to receive, in lieu of such cash dividend, a stock dividend payable in shares of the company.

- (b) In 1979, 5,225 shares were issued under the company's stock option plan for \$61,362 cash. At December 31, 1979, options on 61,275 shares were outstanding, exercisable at prices varying from \$8.14 to \$13.42 for periods up to 1988.

**8. Contingent liabilities**

- (a) The company along with Agnew Lake Mines Limited is a defendant in an action commenced in the Supreme Court of Ontario by Q.M.G. Holdings Inc. arising from the sale in 1974 by Q.M.G. Holdings Inc. to Kerr Addison Mines Limited of its 10% share interest in Agnew Lake Mines Limited. Q.M.G. Holdings Inc. claims damages in excess of \$13,500,000 for alleged misrepresentation. The company is defending the action and in the opinion of counsel the company has a good defense to the action on the merits.
- (b) Government environmental legislation and regulations may require that the company incur future expenditures for the rehabilitation of mining properties that have been closed. While it is still not possible to develop specific plans for such rehabilitation or costs relating thereto, management believes that adequate provision for such costs has been included in the provision for mine closures.

**9. Forward gold sales**

The company has entered into agreements to sell forward 10,600 ounces of gold from 1980 production, for delivery during the first half of 1980, at an average price of U.S. \$433.00 per ounce. Bullion on hand at December 31, 1979 was valued at this unit price.

**10. Subsequent event**

In February, 1980, all the shareholders of Zinor Holdings Limited subscribed for additional common shares of Zinor in proportion to their existing holdings to enable Zinor to repay its bank loan. The company's portion amounted to 1,367,390 shares at a subscription price of \$19 cash per share.







